



Strategic Investments in Local Solutions



Federal Home Loan Bank of Chicago

FHLB  Chicago



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Our Mission

The mission of the FHLB Chicago is to partner with our member shareholders in Illinois and Wisconsin to provide them competitively priced funding, a reasonable return on their investment in the Bank, and support for community investment activities.



Providing Solutions

WE ARE EXCITED TO BE WORKING WITH OUR members and community partners to leverage FHLBC products and services to fulfill their social and community investment goals with “Strategic Investments in Local Solutions.” Not only have our improved earnings provided support for our affordable housing and investment programs, we are also actively partnering with housing agencies to enhance opportunities for developers, homeowners, and renters.

In 2011 we awarded \$24 million in grants through our competitive Affordable Housing Program (AHP) and \$10 million through our Downpayment Plus® (DPP®) and Downpayment Plus Advantage® (DPP Advantage®) programs. Currently, just under 100 members have discounted advances outstanding through Community Investment Cash Advances (CICA). We plan to increase members’ awareness of the benefits of funding eligible projects with CICA advances. And, with \$20 million available for AHP and \$10 million available for

the DPP programs in 2012, plus a strong first quarter of earnings behind us, we are looking forward to another substantial allocation in 2012 for 2013. In addition, we are in the process of developing a program to maximize the impact of our \$50 million initiative, focused on affordable housing and economic development, that we plan to announce later this year.

In many ways our involvement in community development and affordable housing is all about looking forward. By working with our member financial institutions, community development partners, and housing associates, we are making “Strategic Investments for Local Solutions” for the future of the communities in our district.

MATT FELDMAN

President and CEO, Federal Home Loan Bank of Chicago



This letter contains forward-looking statements which are based upon our current expectations and speak only as of the date hereof. We caution that, by their nature, forward-looking statements involve risk or uncertainty, that actual results could differ materially from those expressed or implied in these forward-looking statements, and that actual events could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the risk factors set forth in our periodic filings with the Securities and Exchange Commission, which are available on our website at www.fhlbc.com. We assume no obligation to update any forward-looking statements made in this letter.

Strategic Investments:

FHLBC Products

We support our members' investments in their local communities by offering a variety of products and programs designed to help stimulate economic development and make housing more affordable.

Competitive Affordable Housing Program

The competitive Affordable Housing Program (AHP) helps members meet the housing needs of low- and moderate-income households in their communities. FHLBC members partner with developers, community organizations, or public agencies to apply for forgivable grants to subsidize the purchase, construction, and/or rehabilitation of owner-occupied and rental housing.

Benefits:

- **One of the largest sources of private grants supporting our members' community development and affordable housing activities**
- **Allows members to enhance or establish new relationships in their local communities**
- **Provides critical gap financing**
- **Soft funds often results in lower transaction costs or rental rates**

Downpayment Plus® (DPP®) and Downpayment Plus Advantage® Programs

Members enroll in these programs to provide eligible low- and moderate-income customers with down payment and closing cost grants for the purchase of a home. Under DPP, the member originates or funds the first mortgage; under DPP Advantage, a nonprofit originates or funds the first mortgage. Funds are available on a first-come, first-served basis until the annual allocation is exhausted.

DPP grants may be paired with other financing and down payment assistance programs, including those offered by the Illinois Housing Development Authority (IHDA) and the Wisconsin Housing and Economic Development Authority (WHEDA), to further reduce cash-to-close and monthly mortgage payments.

Benefits:

- **Facilitates homeownership for members' customers**
- **Improves loan-to-value ratio of mortgage assets originated under these programs**
- **May be used in conjunction with secondary market programs including the FHLBC's Mortgage Partnership Finance® (MPF®) Program**

Community Investment Cash Advances and Letters of Credit

Members may borrow at discounted rates through the Community Investment Cash Advance (CICA) program to finance eligible housing or community economic development projects. These advances, available throughout the year, are used to finance loans to individual households, public entities, small businesses, farms, and community facilities such as healthcare and educational centers.

Benefits:

- **Lowers borrowing costs and/or improves the member's margin with discounts of 5 to 15 basis points**
- **Allows members to provide competitive and flexible products**
- **Available for both portfolio funding and match-funding opportunities**

The FHLBC also offers discounted pricing for letters of credit that credit enhance bond financings or provide performance guarantees for housing and economic development projects eligible under the CICA program. Typical transactions include credit-enhanced housing bonds, both taxable and tax-exempt; taxable economic development bonds; and performance bonds such as those required of developers to ensure the completion of a housing project.

Benefits:

- **Leverage the Aaa/AA+ rating of the FHLBC**
- **Retain and grow local customer relationships**
- **Improves bond-related transaction costs**

Investing Strategically

THE FEDERAL HOME LOAN BANK OF CHICAGO'S Affordable Housing Advisory Council consists of leaders who represent multiple facets of the financial and community development industries in Illinois and Wisconsin. When we gather four times each year, we seek to share with the leaders at the FHLBC the needs and issues within our markets and regions so that the Bank is able to respond appropriately and in a timely manner.

As I reflect on 2011, I recognize there are many success stories, yet our struggling housing industry still faces many challenges. With home-buying activity at historic lows, it is imperative that the options on rental programs be expanded. The Bank's competitive AHP awards reflect exactly that for 2011—a demand for affordable rental housing. Nearly 80% of the awards made in 2011 went to rental housing developments. A number of rehabilitation projects, both rental and owner-occupied, were also funded.

One of the most challenging obstacles for homebuyers still remains the ability to save money for a down payment. The FHLBC's Downpayment Plus Program provides a great boost. More than \$10 million was awarded through member financial institutions for down payment assistance in Illinois and Wisconsin in 2011. We will stay engaged in providing this critical resource as the market struggles to improve.

As we recover from the major job losses that both Wisconsin and Illinois have experienced over the past few years, it is crucial the FHLBC's community investment resources reach those at very low income levels in order for them to have quality affordable housing options in communities throughout our district. The Advisory Council and the FHLBC will work hard to make 2012 a success. By making strategic investments in local solutions, the FHLBC, its members, and its partners can continue serving as catalysts to make our housing market—and the people who live in our communities—stronger.

DIANE SCHOBERT

Chair, 2011 Community Investment Advisory Council

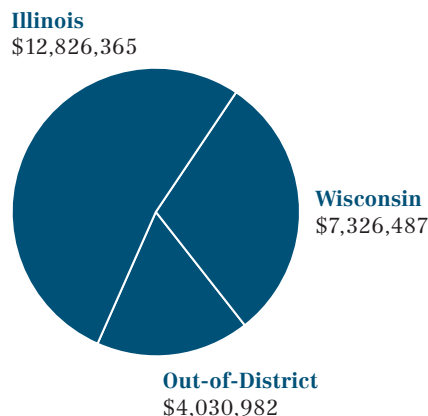


2011 Community Investment Performance Summary

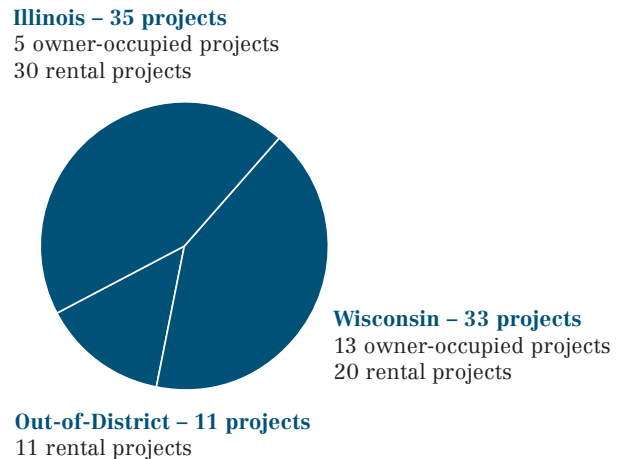
| Programs | 2011 | | Since 1989 | |
|--|---------------|-----------------------|---------------|-------------------------|
| | Beneficiaries | Dollars | Beneficiaries | Dollars |
| Community Lending | | | | |
| Community Investment Program (CIP) – Housing | 621 (u) | \$ 35,011,142 | 102,417 (u) | \$ 5,988,033,554 |
| Community Economic Development Advance (CEDA) | 29 (t) | 50,099,735 | 791 (t) | 1,736,986,421 |
| Mixed-Use Projects | 0 (t) | — | 41 (t) | 111,879,376 |
| Subtotal Community Lending | — | 85,110,877 | — | 7,836,899,351 |
| Grant Programs | | | | |
| Downpayment Plus Program (DPP) | 1,234 (u) | 9,637,339 | 17,886 (u) | 75,940,374 |
| Downpayment Plus Advantage (DPP Advantage) | 81 (u) | 541,200 | 551 (u) | 2,698,200 |
| Competitive Affordable Housing Program (AHP) | 4,414 (u) | 24,183,834 | 61,652 (u) | 267,110,709 |
| Subtotal Grant Programs | 5,729 | 34,362,373 | 80,089 | 345,749,283 |
| Mortgage Purchase Programs | | | | |
| Native American Mortgage Program (HUD Section 184) | 156 (u) | 18,654,606 | 867 (u) | 93,027,839 |
| Recoverable Grant Programs | | | | |
| MPF® Endowment | 1 (t) | 80,000 | 59 (t) | 3,121,098 |
| Total Program Financing | | \$ 138,207,856 | | \$ 8,278,797,571 |

(u) Housing Units, (t) Transactions

Subsidy Awarded (Competitive)



Project Location and Type (Competitive)



2011 Competitive AHP Awards: Member Participation

**C = Part of
a member
consortium**

**CL = Consortium
Lead**

First-time AHP awardees

The Bank of Marion
Bank of Quincy
Gold Coast Bank
IFF
Lakeside Bank
Jacksonville Savings Bank (C)
Midwest Bank of Western Illinois
Mid-Wisconsin Bank
Monona State Bank
Nicolet National Bank (C)
Village Bank & Trust

Returning AHP awardees

Alpine Bank & Trust
Company (C)
Altra Federal Credit
Union (C)
AnchorBank, FSB (CL)
Associated Bank,
National Association (C)
The Bank of Carbondale
Bank First National
Bank Mutual
Bank of Springfield (C)
Baylake Bank (CL)
Blackhawk Bank (C)
BMO Harris Bank (CL)
Busey Bank
Citizens First Bank (CL)
Citizens State Bank of
La Crosse (CL)
Cole Taylor Bank
Community Bank & Trust (C)
Coulee Bank (C)
The Equitable Bank (C)
Farmers & Merchants
Bank (C)
First American Bank
First Business Bank
First Eagle Bank
First Midwest Bank

First National Bank –
Fox Valley
Freedom Bank
Guaranty Bank (C)
Hometown Bank
Illinois National Bank
Johnson Bank (CL)
Marine Bank (C)
Marine Credit Union (C)
MB Financial Bank,
National Association
North Shore Bank, FSB (C)
One Mortgage Partners Corp.,
a subsidiary of
JPMorgan Chase
The Park Bank
Peoples State Bank (C)
PyraMax Bank, FSB (C)
River Bank (C)
Riverside Community Bank (C)
Security Bank, s.b. (CL)
State Bank Financial (C)
Time Federal Savings Bank
Town & Country Bank (C)
Westby Co-op Credit Union (C)



2011 Competitive AHP Awards: Sponsors

| | | | |
|---|--|--|--|
| 222 State Street Properties, LLC | Excel-Allegan LDHA LP Featherfist | Milwaukee Center for Independence | Southern Illinois Supportive Services, LLC |
| 3 Diamond Development | Ford Heights Community Service Organization | Movin' Out, Inc. | Star Penrose Village II Development Corporation |
| A Safe Haven Foundation/ CCIL | Franciscan Tertiary Province of the Sacred Heart | MSP Development Company, Inc. | SunStarr-Beacher, LLC |
| ACTS Community Development Corporation | G&A Construction and Development | Neighborhood Housing Services of Green Bay, Inc. | Tanner Properties, Inc. |
| Alliance Property Group, Inc. | Garfield Ridge Senior Residences LLC | New Directions Housing Corporation | Thresholds |
| The Alden Foundation | Gorman & Company Housing Authority of the City of Milwaukee | New Hope Housing NEWCAP | Turnstone Development Corporation |
| Ariel Community Development Corporation | Housing Resources Inc. Illinois Assistive Technology Program | Northpointe Development Corporation | United Neighborhood Organization |
| Bickerdike Redevelopment Corp. | Impact Seven, Inc. | Orchard Communities, Inc. | Volunteers of America National Services |
| Brinshore Development L.L.C. | Interfaith Housing Development Corporation | Oshkosh Housing Authority | Volunteers of America of Illinois |
| Brinshore, Inc. | Laborers' Home Development | Partners for Community Development, Inc. | Wausau Community Development Authority |
| Buckeye Community Hope Foundation | Lakeshore CAP, Inc. | Penrose Village II Development Corporation | West Central Illinois Area Agency on Aging |
| The Burton Foundation | Martin Luther King Economic Development Corp | Polish National Alliance | Western Community Housing, Inc. |
| Cambridge Manor Tenant Council | Melmar Venture LLC | The Resurrection Project | Wisconsin Housing Preservation Corporation |
| Clearbrook | METEC | Rockford Area Affordable Housing Coalition | WM Peoria, LLC |
| Columbus Housing Partnership, Inc. | Midwest Affordable Housing Corp. | City of Rockford Dept. of Community Development | |
| CommonBond Communities Commonwealth Development Corp. | | Rockford Rescue Mission Ministries | |
| The Community Builders, Inc. | | Sarah's Circle, Inc. | |
| Couleecap, Inc. | | Select Milwaukee, Inc. | |
| DDG Morgan Park, LLC | | Senior Suites Chicago Corporation | |
| Eastwood Apartments, Inc. | | Southern Illinois Coalition for the Homeless | |
| Evergreen Real Estate Services, L.L.C. | | | |

Local Solution: Rural AHP Investment

Economic Development Directly Affects Housing in a Small Wisconsin Town

MARINETTE, WISCONSIN is an inland seaport on the western shore of Lake Michigan's Green Bay. It is home to the Marinette Marine Corporation, a world-class shipbuilder that was awarded a contract from the U.S. Navy in 2010 to build 10 combat ships.

Suddenly, more than 1,000 new jobs were coming to the town of 11,000. Although excited, the townspeople wondered, Where would everyone live? "There is a lack of affordable housing in Marinette, period," said Marissa Downs, Senior Vice President at Commonwealth Development Corp. "The

vacancy rate is virtually zero percent. There are no options."

The Wisconsin Housing and Economic Development Authority (WHEDA)

responded to this extraordinary situation by creating a special round of competitive 2011 Low Income Housing Tax Credits to help address the immediate housing needs in Marinette.

Commonwealth Development Corp. promptly looked for a partner that had specific knowledge about Marinette. NEWCAP Inc. is a private non-profit Community Action Agency based in Oconto—just a 30-minute drive from Marinette. Not only did Commonwealth

Development Corp. partner with NEWCAP to apply for the tax credits, the two joined forces with FHLBC member Hometown Bank to apply for a competitive AHP grant. AHP funds are forgivable grants that may be used to finance the purchase, reconstruction, or rehabilitation of affordable rental or owner-occupied housing units.

As Marissa listened to an AHP webinar last year, she learned that they could apply for a grant for the Marinette project before the WHEDA tax credits were allocated. "The stars aligned," she said. With very low existing rents in the market, the finite allocation from WHEDA, and the desire to build units that fit the character of the community—the pressure was on to secure financing. "Without the AHP grant, the deal wouldn't have worked," Marissa said.

WHEDA awarded Commonwealth Development Corp. and NEWCAP the \$700,000 tax credits. Hometown Bank, based in Fond du Lac, Wisconsin, will provide a \$408,000 AHP subsidy to NEWCAP for the construction of "The Village on the Water," a 48-unit rental development within walking distance to the Marinette Marine Corporation. The development will be comprised of 20 cottage-style units and 28 townhome units.

Story continues on page 12.

"There is a lack of affordable housing in Marinette, period. The vacancy rate is virtually zero percent. There are no options."

Local Solution: Rural AHP Investment, continued

TWO SOLUTIONS

The rural community of Marinette, Wisconsin, wanted the new affordable housing units to complement the city's existing architecture. Jaime Johnson, Special Programs Director at NEWCAP Inc., knew what was popular—and what was not. She worked with Marissa Downs at

Commonwealth Development Corp. to develop the idea for cottage-style and townhome units similar to the ones shown here. "The public is looking forward to what we're doing in the community," Jaime said. "We reassured them. We're all in this together."

TOWNHOMES



COTTAGES



Local Solution: Urban AHP Investment

Former Hotel to be Transformed into Supportive Housing

BUILT IN 1927, The Diplomat was once a popular Chicago residential hotel—a common form of housing at the time. But over the decades, the property fell into disrepair and the City of Chicago took ownership. Through a competitive process, the City selected the team of Thresholds and Brinshore Development, LLC to acquire and redevelop the property as supportive housing—deeply affordable permanent housing with supportive services.

The new Diplomat is intended for individuals with histories of homelessness and/or mental illness. As the oldest and largest non-profit

organization in Illinois delivering services to people with severe and persistent mental illness, Thresholds knows this population well. “The road

to recovery begins with safe and affordable housing,” said Thresholds CEO Mark Ishaug. “The Diplomat will provide studio apartments where people with mental illness can live in close proximity to other services that they need to help rebuild their lives.” Thresholds has hundreds of people on its waiting list and is adding people all the time, according to Jay Forman, Vice President of Strategic Development. But, he cautions, the housing must meet certain criteria. “It must be safe and affordable. Both of those things.”

Thresholds partnered with Brinshore Development, LLC and FHLBC member One Mortgage Partners Corp., a subsidiary of JPMorgan Chase Bank, N.A., to apply for a \$374,000 AHP subsidy to repurpose the hotel

into 51 units of supportive housing. Using a donated building, committing to affordable rents for a very-low income population, offering a full range of empowerment services, and requesting a modest subsidy per unit helped the project earn the honor of the highest-scoring application in the FHLBC’s 2011 competitive AHP program.

“AHP entered from the beginning,” said Richard Sciortino, Principal at Brinshore Development. “AHP is very often used for gap financing. There are very limited soft funds available now and lots of demand for [Low Income Housing] tax credits.”

His AHP partners agree. “The AHP subsidy is an important resource that we leverage when we are putting together a project with our partners,” said Paul Vlamis, Vice President of Community Development Banking at Chase. “We believe that affordable housing is critical to a community’s vitality and strength.”

In addition to the project’s high-scoring components, The Diplomat is located in a vibrant, mixed-income neighborhood near Wrigley Field, home of the Chicago Cubs. The area has many opportunities for employment, Richard said. “It’s really going to serve the residents well.”

The project also seeks to serve the neighborhood well by opening two storefronts—one of which will house Urban Meadows, Thresholds’ non-profit floral shop where Thresholds’ members work. “We are so excited about the new location,” Jay said. “It will create opportunities for people to see and learn about what we do.”

Story continues on page 14.

“The AHP subsidy is an important resource that we leverage when we are putting together a project with our partners.”

Local Solution: Urban AHP Investment, continued

BEFORE AND (AN ARTIST'S) AFTER

The center of the current U-shaped Diplomat building in Chicago will be removed to create a light-filled courtyard in the new supportive housing development. The partners

in the planned transformation of the vacant hotel believe supportive housing shouldn't be an island within a neighborhood; it should be seamlessly integrated.

ARTIST'S RENDERING



BEFORE

Invested In Your Success

2011 Community Investment Advisory Council

Joy Aruguete (2011 Vice-Chair)

Bickerdike Redevelopment Corporation
Chicago, IL

Robert Campbell *

Rockford Area Affordable Housing Coalition
Rockford, IL

Ray DePerry *

Chippewa Housing Authority
Lac du Flambeau, WI

Gary Gorman

Gorman & Company, Inc.
Oregon, WI

James M. Hill

Milwaukee Center for Independence
Milwaukee, WI

Jim Keledjian

Pathway Senior Living
Des Plaines, IL

Irma Yopez Klassen **

Select Milwaukee
Milwaukee, WI

Domenick F. Martinelli *

NHS of Southeast Wisconsin
Racine, WI

Nancy McKenzie

City of Rhinelander Housing Authority
Rhinelander, WI

Michael Mitchell

Community Developer
Chicago, IL

Thomas Monico

Thomas & Thomas Associates, Inc.
Glenview, IL

Mary Patoka **

CAP Services, Inc.
West Stevens Point, WI

Jacques Sandberg

The Community Builders
Chicago, IL

William Schneider (2012 Vice-Chair)

Turnstone Development
Chicago, IL

Diane M. Schobert (Chair)

Forward Community Investments
Madison, WI

Bill Smirniotis *

Community Developer
Chicago, IL

Katrina Van Valkenburgh **

Corporation for Supportive Housing
Chicago, IL

Affordable Housing Committee of the 2011 Board of Directors

Owen E. Beacom **

First Bank & Trust
River Forest, IL

Edward P. Brady

Brady Homes
Bloomington, IL

Mark J. Eppli **

Marquette University
Milwaukee, WI

Thomas L. Herlache

Baylake Bank
Sturgeon Bay, WI

Roger L. Lehmann

The Harvard State Bank
Harvard, IL

Leo J. Ries

Local Initiatives Support Corporation
Milwaukee, WI

Michael G. Steelman *

Farmers & Merchants State Bank of Bushnell
Bushnell, IL

Gregory A. White *

LEARN Charter School Network
Chicago, IL

Community Investment Staff

Sam Nicita

Community Investment Officer

Jamie Ashbrook

Susan Ashe

Chuck Childs

Nicole DiBenedetto

Rischarad Gray

Diane Jackson

Timothy Klont

Debra Pater

Joann Rudie

Colleen Sheahan

Jeremy Smith

Nicolette

Jurgens-Tamminga

Suzanne Thackston

Susan Wohlhart

*Transitioned in 2011

**Welcomed in 2012

Making Connections

ONE OF THE GREAT PLEASURES OF WORKING IN THE FHLBC'S Community Investment Department is the opportunity to serve as a "matchmaker" of sorts. We connect organizations—FHLBC members, nonprofits, developers, and public agencies—with each other as well as with ideas, products, and programs for the direct benefit of the people and communities they serve. These connections produce a number of tangible results, including competitively priced loans for small businesses, safe and affordable apartments for households on fixed incomes, and down payment assistance for those saving to purchase homes.

In 2011, the FHLBC not only made connections for others, we also worked on strengthening our existing relationships and made new connections of our own. We actively engaged in the community development dialogue in our two-state district to remain relevant on industry trends and policy issues in order to better position ourselves to respond to district needs. We offered more training and information on topics important to members, sponsors, and partners—both current and potential. And we increased our efforts to promote our programs to these same groups so they could take advantage of resources that they might not have known about.

The FHLBC is using the feedback from this outreach to evaluate the impact of our programs—their breadth and depth—and to inform their evolution. Given current market conditions, meeting the district's needs is challenging, but not impossible. As a group uniquely situated in the market, the FHLBC isn't just wishing for good results; together with our members and partners, we are strategically investing to make them happen.

SAM NICITA

Community Investment Officer, Federal Home Loan Bank of Chicago





Member owned. Member focused.

Federal Home Loan Bank of Chicago
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www.fhlbc.com